Handout B

Example: EXPANDED Cost Benefit Comparison

The government is proposing a new regulation for domestic businesses to track sales of domestic goods to foreign customers. Your manager realizes that this requires computer hardware and software investment. She sees certain benefits in that computerized sales forces are able to contact more customers and give a higher quality of reliability and service to those customers. They are more able to meet commitments and can work more efficiently with fulfillment and delivery staff. But there are also significant costs involved. She asks you to evaluate the costs versus the benefits so that she knows whether to support or oppose the regulation.

The expected life of the project is 5 years. The interest rate is 7%. Compute the discount factor using the following formula:

PV = Present Value

FV = Future Value

i = interest rate to be

compounded over "n" periods

n = number of periods

$$PV = FV \cdot \left(\frac{1}{(1+i)^n} \right)$$

Compute the net gain or loss of the proposed project.

Costs:
Purchase of new computer equipment to meet the requirements of the new regulation:

- 10 network-ready PCs with supporting software @ $2,450 each
- 1 server @ $3,500
- 3 printers @ $1,200 each
- Cabling & Installation @ $4,600
- Sales Support Software @ $15,000

Training costs:

- Computer introduction – 8 people @ $400 each
- Keyboard skills – 8 people @ $400 each
- Sales Support System – 12 people @ $700 each

Other costs:

- Lost time: 40 man days @ $200 / day
- Lost sales through disruption: estimate: $20,000
- Lost sales through inefficiency during first months: estimate: $20,000

What is the Total Cost? _____

Benefits:

- Tripling of mail capacity: estimate: $40,000 / year
- Ability to sustain telesales campaigns: estimate: $20,000 / year
- Improved efficiency and reliability of follow-up: estimate: $50,000 / year
- Improved customer service and retention: estimate: $30,000 / year
- Improved accuracy of customer information: estimate: $10,000 / year
- More ability to manage sales effort: $30,000 / year

What is the Total Benefit? _____